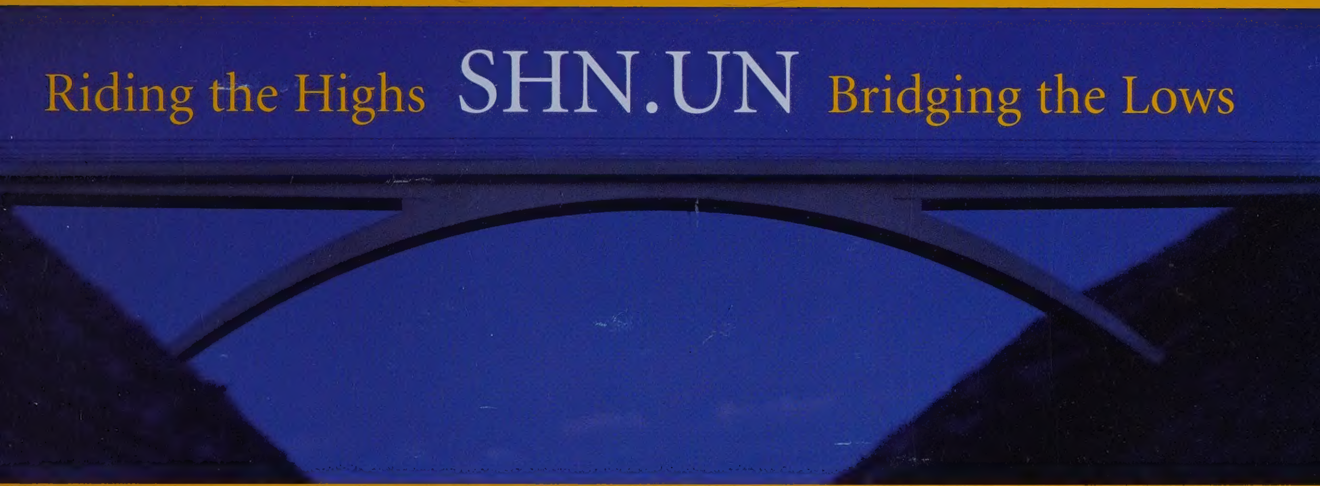
Managing the Cycles



Shiningbank Energy Income Fund

2001 Annual Report

($000s, except Trust Unit amounts)	2001	2000
FINANCIAL		
Oil and natural gas sales	170,714	104,772
Distributable income	81,979	42,410
Per Trust Unit	$ 3.40	$ 2.76
Acquisition and development costs	323,204	116,362
Long term debt	122,459	57,381
OPERATIONS		
Average daily production		
Oil *(bbl/d)*	2,013	1,402
Natural gas *(mmcf/d)*	61.6	35.7
NGL *(bbl/d)*	1,288	962
Oil equivalent *(boe/d at 6:1)*	13,564	8,312

Shiningbank Energy Income Fund marked its 5th anniversary in 2001 with a major benchmark – distributions alone returned over 100% of unitholders' original $10.00 investment. Since 1996, Shiningbank has been a top performer in the sector and, in 2001, its total annual compound rate of return since inception was 28%. This strong performance has hinged on consistent, conservative management strategies by a team of oil and gas professionals. The Fund acquires and operates producing properties, primarily natural gas, and markets its production of natural gas, crude oil and natural gas liquids. Shiningbank's units trade on the TSE under SHN.UN

The Fund is named after Shiningbank Lake, which is near the first property acquired by the Trust. Shiningbank comes from an Aboriginal name describing the lake's clay banks which shine like gold in the sun.

Through distributions alone

116% cash returned since inception

Total return since inception (distributions and unit price)

28% compound rate of return per annum

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Our Solid Foundation

QUALITY ASSETS

Base of properties with stable production characteristics and long-life reserves.

Operate the majority of assets to ensure control of operations.

Only undertake low risk drilling or other low cost development activities.

NATURAL GAS CONCENTRATION

Highest percentage of natural gas in the sector at 76% of production.

Long-term outlook for natural gas is very healthy.

'Cleaner-burning' natural gas remains the fuel of choice in North America.

CREDIBLE MANAGEMENT

Five-year track record of superior returns to unitholders.

Extensive experience in both the oil and gas business and in the financial community.

Ability to raise equity indicates market support for management's skills and strategies.

STRONG BALANCE SHEET

Conservatively managed debt position.

Stable debt/equity structure provides the foundation for strong distributions.

Ability to raise equity ensures flexibility in making accretive acquisitions.

Five Years of Prosperity

1996

Shiningbank founded May 1996.

Began trading on the TSE at $10.00 per unit.

Gas prices average $1.92 per mcf.

Distributions total **$0.83 per unit** for the six months.

1997

Total annual compound return since inception of **17%.**

Distributions total **$1.60 per unit.**

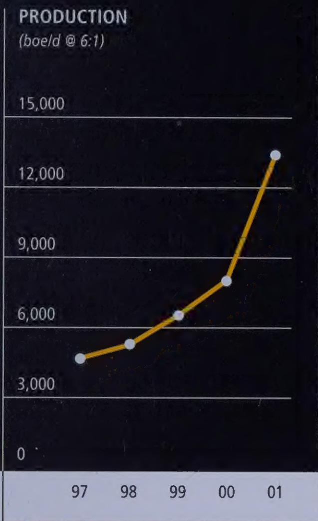
1998

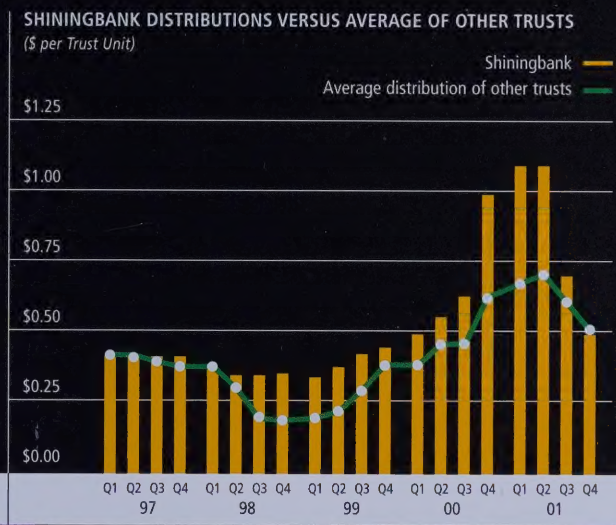
Slight decline in annual distributions to **$1.43 per unit** reflects a 10-year low in oil prices.

Total return of **26%** for the year leads the sector.

WTI Oil (US$/bbl)

AECO Gas (C$/mcf)





1999

Distributions total **$1.60 per unit.**

23% total return for the year.
22% per annum since inception.

Low oil prices drive asset prices down; SHN buys Caroline, its largest property acquisition to date.

2000

Total return since inception of **33%** per annum.

Asset prices still attractive; SHN's first corporate takeover, Raider Resources Ltd., and largest-ever property acquisition.

SHN leads the sector with **86%** total return in 2000.

Distributions climb to **$2.76 per unit.**

Production has doubled since inception.

2001

Unit price decline late in the year reflects lower gas prices.

28% total compound rate of return since inception.

Record annual distribution of **$3.40 per unit.**

Largest acquisition to date – Ionic Energy Inc.

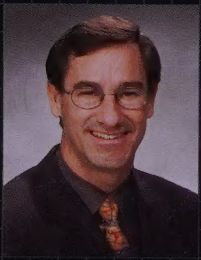
MANAGEMENT TEAM

David M. Fitzpatrick
President and Chief Executive Officer

Dave is a geological engineer who brings considerable technical expertise to the role of President and Chief Executive Officer. That skill is combined with over 20 years industry experience, much of it in senior management with some of the industry's largest public companies.

Terry P. Prokopy
Vice President, Land

Terry joined the Fund in late 2000 bringing 30 years of top-level land experience with both major and junior oil and gas companies. Terry plays a key role in identifying and evaluating acquisition targets for the Fund.



Arne R. Nielsen
Executive Chairman

Arne is recognized as one of the pioneers in the Canadian oil and gas industry with 50 years experience including head of Mobil Oil Canada Ltd. His contributions have been honoured in many ways including inductee into the Petroleum Hall of Fame, an Honourary Doctorate from the University of Alberta, and he was named to the list of Albertans who had an impact on the 20th century.

Bruce K. Gibson
Vice President, Finance and Chief Financial Officer

With over 25 years industry experience, Bruce has been the senior financial executive in several gas-weighted public companies. His considerable expertise includes hands-on oil and gas financial management, commodity marketing and public equity market issues.

Gregory D. Moore
Vice President, Operations

With over 30 years experience as a petroleum engineer, Greg is responsible for all field operations – from drilling to reservoir management. Having worked in both Canada and Australia, he brings a broad base of technical expertise in production optimization and reservoir performance.

For the third year in a row, Shiningbank reached a new high in annual distributions. We paid our unitholders $3.40 per unit, up from $2.76 in 2000. We also reached a major benchmark. Shiningbank became the first of its vintage of royalty trusts to have distributions pay out its full initial public offering (IPO) price of $10.00 per unit. We achieved this milestone with our second quarter distribution, exactly five years from our IPO in July 1996.

Our record distributions in 2001 were made possible by an unprecedented peak in gas prices early in the year, and the acquisition of Ionic Energy Inc. in April, which increased our production by 56% and added reserves that replaced three times our 2001 production.

This production growth supported distributions as gas prices on North American markets fell to the level seen in late 1999. This led to lower distributions in the last two quarters, which were similar to those in late 1999 just prior to the run-up in gas prices.

Our unitholders should be reminded of our objectives in managing the Fund, providing unitholders with:

- Superior returns compared with more traditional investment vehicles
- A relatively secure, long-term base of cash flow through a low risk investment in the oil and gas industry
- Opportunity for higher distributions from gas price strength

Riding the Highs, Bridging the Lows

On the heels of such market volatility, we decided it was important to explain how we manage risk in our business; how we ride the highs of commodity prices – and bridge the lows. Equally important is where gas prices are going, and this annual report presents our views on how we see the market unfolding. Without these perspectives, it would be difficult for our unitholders to make sound investment decisions.

Shiningbank has been able to generate high returns through effective management of risk. But there is one thing largely outside of our control – commodity prices.

Why the plunge in gas prices?

In January 2001, natural gas was selling at over $10.00 per mcf, an all-time high. By September, it was only $2.44 per mcf. It's a fact of life that commodity prices cycle up and down, although not usually as much as in 2001. Natural gas can move in a band as wide as $2.00 per mcf, depending on such North American factors as supply and demand, weather conditions and the health of the economy. All of these converged last year to create unusual price movements.

The price run-up started in mid-2000. The summer months are when gas storage is replenished for the upcoming winter heating season, the high demand point of the year. The market sensed a supply shortage after a warm summer and high cooling demand. Prices started to rise, hitting a peak during an early winter cold snap.

The threat of a shortage vanished with the fairly mild winter, the slowing US economy, and the fact that many industrial users had switched to oil rather than pay such high gas prices. Prices began to slide, hitting a low after the tragic events of September 11th. We are now selling gas in the range of Cdn$3.00-4.00 per mcf, but there are too many factors weighing on the market to expect a major price increase in the short term.

Where are gas prices going?

We believe gas prices will be stronger than they are today. Declining supply in North America will simply not be able to keep up with rising demand. But all commodity prices cycle up and down, and gas will be no exception. We see the following scenario unfolding:

SHORT TERM In the next few months, prices should continue in the area of Cdn$3.00 per mcf. Prices will be kept down by high storage inventories, this year's warm winter in the major consuming areas and lower US industrial demand due to the economic recession.

MEDIUM TERM Analysts are predicting the US economy to heat up in the next six to 12 months, which will increase demand and gas prices. This should move the price range up to about Cdn$4.00-5.00 per mcf, but there will still be short-lived spikes and troughs.

LONG TERM Over the next two to five years, we still see gas selling in the Cdn$4.00-5.00 per mcf range. Unless drilling in North America increases significantly, and perhaps even if it does, the threat of a supply shortage will continue to hang over the marketplace. Again, there will be cycles of low, then high prices, but we are bullish for the long term as evidence points to natural gas being the fuel of choice in the North American economy.

Challenges and Outlook

The biggest influence on our performance in 2002 will be the price of gas. Oil prices are also volatile, and are currently feeling the effects of the economic downturn in the US. These factors aside, we anticipate our quarterly distributions will remain at about the same level as in 1999 at $0.45-0.50 per unit.

Still, 2002 is expected to be another year of growth for Shiningbank, although it will be more difficult to show the same volume increase. Based on the industry consensus of a healthy outlook, gas assets are commanding a high price and it may be difficult to acquire reserves with the same economics as in past years.

Gas prices are still volatile, however, our management strategies help support distributions through the cycles.

Another trend will benefit Shiningbank and its unitholders. With interest rates at their lowest level in decades, royalty trusts with their high returns have become a popular choice for investors. In turn, this has sparked greater interest on equity markets, and we should be able to continue to raise funds to purchase assets, while maintaining strength in our balance sheet.

We look forward to another year of growth and we are geared to continuing our record of strong distributions.

A R Nielsen

Arne R. Nielsen
Executive Chairman

March 12, 2002

David M. Fitzpatrick
President and Chief Executive Officer

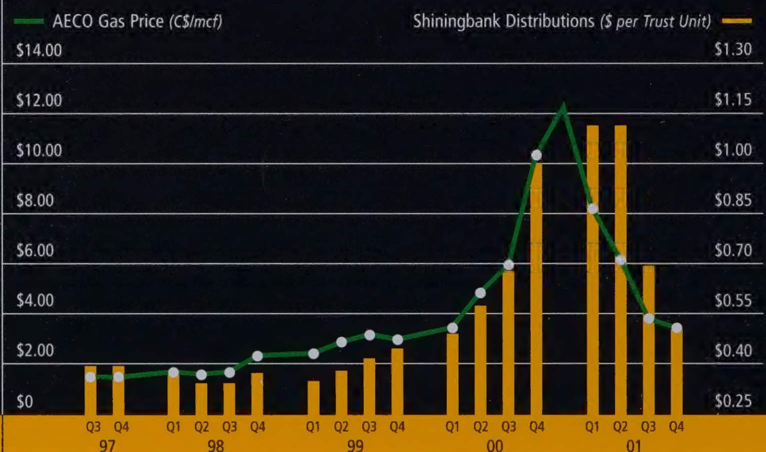
Your total return

What happened last year?

Shiningbank has consistently been a top performer in the sector. Investors who bought $10 units at inception have received a 28% total compound rate of return per annum. Our compound returns are more stable than annual rates as the longer time period smoothes out changes in commodity prices.

Annual returns more directly reflect the highs and lows of gas pricing. We captured a gas price high in 2000, which boosted our unit price and distributions and led to our 86% total return, the best in the sector. Our 2% total return in 2001 came from a drop in our unit price when comparing year-end 2000 and 2001. This was seen in most gas-focused investments and offset our record distribution for the year.

OUR RATES OF RETURN AND DISTRIBUTIONS ARE LARGELY DRIVEN BY GAS PRICES



TOTAL RETURN IS BASED ON UNIT PRICE ON THE TSE AND DISTRIBUTIONS FOR ANY ONE-YEAR PERIOD

For example: Subtract the unit price at year-end 2001 from the price at year-end 2000. Add 2001 distributions; divide total by year-end 2000 price.

Unit Price as at	
December 31, 2000	$ 17.00
December 31, 2001	(13.97)
	$ (3.03)
Distributions	$ 3.40
Total return	**$ 0.37**
Total rate of return *($0.37 ÷ $17.00)*	**2%**

Your return from distributions

Distributions returned 100% of unitholders' investment

In 2001, Shiningbank became the first trust of those launched in 1996/97 to return its unitholders' original investment through distributions. By year end, our record annual distribution of $3.40 had returned 116% of that original $10 per unit purchase. If units were bought at year-end 2000 for the market price of $17.00, we generated a 20% return through distributions alone. Distributions for 2002 should be more in line with late 1999 as gas prices have fallen to the level seen at that time.

RETURNS THROUGH DISTRIBUTIONS ONLY

	Distribution	Annual return	Return since inception	Compound annual rate of return
1996	$ 0.83	14%	14%	37%
1997	$ 1.60	14%	24%	27%
1998	$ 1.43	16%	39%	21%
1999	$ 1.60	16%	55%	20%
2000	$ 2.76	20%	82%	22%
2001	**$ 3.40**	**20%**	**116%**	**24%**

These returns assume that units are at a constant price of $10.00.

Riding the highs

Long term *2 to 5 years*

Prices will always fluctuate with supply, demand and weather. However, we expect prices to cycle in the \$4.00-5.00 range.

Medium term *6 months to 2 years*

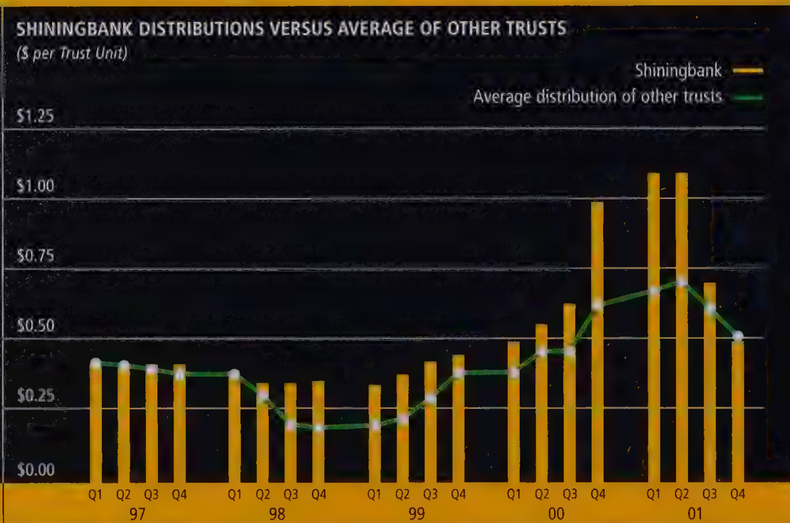
Analysts predict a US economic recovery in 2002. Gas prices should then move back into the trading band of \$4.00-5.00 per mcf.

Short term *Today*

Gas prices are forecast to remain weak pending a US economic recovery.

Shiningbank's track record of superior returns is based on a complex interplay of factors – all involving the management of risk. The Fund's mandate is to provide investors with a low risk investment in the oil and gas sector. Yet commodity prices are outside of the Fund's control and, to a large extent, dictate distributions to our unitholders. To balance the equation, the entire Fund – from fiscal matters to field operations – is managed according to specific parameters to reduce risk, and provide long-term stability to unitholders.

Bridging the lows



ACQUISITIONS

Acquisition targets must have specific characteristics suited to the Fund's low risk mandate, i.e. long-life reserves and stable production rates.

Through acquisitions, we have achieved a consistent pattern of year-over-year reserve replacement.

We look for high quality production – natural gas with a high NGL content, which increases revenues.

Our ability to consistently raise capital is a sign of market confidence in management's skills and strategies.

Acquisitions are funded through leverage or equity issues, but a prime concern is preserving balance sheet strength.

Acquisitions must be accretive to unitholders so that value is immediately passed on to investors.

GAS FOCUS

Gas has a clear advantage over oil as it has a more favourable long-term outlook without the influence of Middle Eastern politics.

Gas is considered more environmentally-friendly than other fuels.

Gas is the fuel of choice for electrical generation and heating in the North American economy.

CORPORATE GOVERNANCE

Understanding a company's stand on corporate governance is an important part of an investment decision, particularly in the aftermath of the Enron bankruptcy, and the nervousness of investors after September 11th.

Shiningbank has a strong and experienced Board of Directors. Three of the five members are independent directors with extensive oil and gas expertise. The independent auditors that oversee our financial presentation and disclosure are highly respected across the country, as are the independent reserve engineers who prepare our annual reserve evaluation. Our banking syndicate is made up of four major Canadian chartered banks and is conservative in its lending practices, while being supportive of Shiningbank's financing needs for acquisitions.

All royalty trusts are, by their nature, complicated corporate and trust structures. However, Shiningbank's structure is comparatively simple. We do not use partnerships that do not appear on the balance sheet, offshore affiliates or other means of disguising business activities. The Fund's structure is simple, thoroughly audited and our disclosure to investors is transparent. Our asset-based approach to earning income for our unitholders is simple and clear.

MARKETING

Commodity markets are surveyed continually to ensure the Fund's production is being sold into the right markets to capture the best prices.

Management's experience through many commodity price cycles is key to bridging the lows in commodity prices.

OPERATIONS

We work to control operating costs in the field, which enhances netbacks.

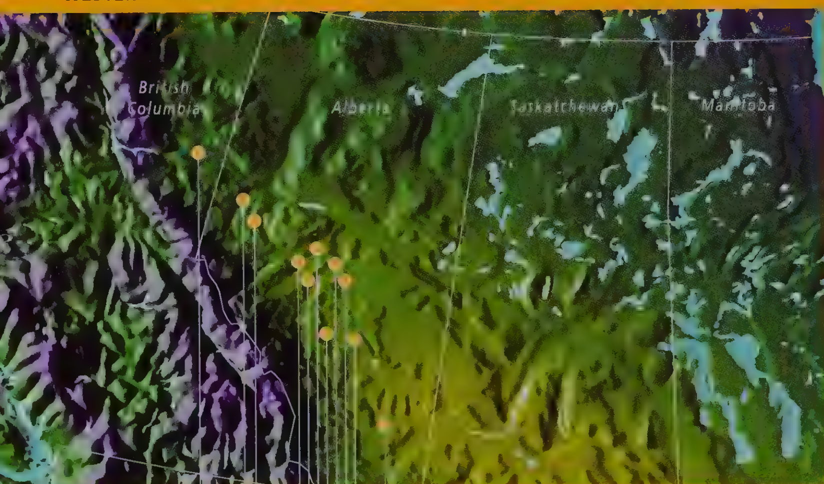
Low risk development activities increase production and reservoir performance which, in turn, increases returns to unitholders.

Development activities are an alternative for replacing reserves when acquisitions are expensive.

Some lands are farmed out to other companies. They pay to drill higher risk wells to earn an interest, while Shiningbank stands to gain production at no extra cost or risk.

Landholdings

WESTERN CANADA



ONTARIO

Quality Assets

Quality assets are a cornerstone of our success. In the past five years, the Fund has built a base of high-quality properties with characteristics well suited to a low risk investment in the oil and gas business. We acquire properties with a profile of predictable production, long-life reserves and a low cost structure. In the long run, the quality of our assets is critical to maintaining our superior returns to investors.

2001 AVERAGE DAILY PRODUCTION BY AREA

	Area	Operated	Oil (bbl/d)	Gas (mcf/d)	NGL (bbl/d)	Total Oil Equivalent (boe/d)
Alberta	Whitecourt	Yes	13	7,066	50	1,241
	Caroline	Yes	211	3,423	222	1,004
	Paddle River	Part	32	4,165	153	879
	St. Anne	Yes	85	4,426	–	822
	Dunvegan	No	9	3,613	193	804
	Penhold	Yes	34	3,443	152	760
	Belloy	No	6	3,086	26	546
	Kakut	Yes	104	2,327	37	529
	McLeod	Part	10	2,486	75	499
	Long Coulee	Yes	392	532	2	482
	Medicine Hat	No	–	2,694	–	449
	Rosevear	Yes	–	1,575	21	284
	Other	Part	1,020	15,917	314	3,988
Ontario		Yes	97	2,285	1	479
Monias, B.C.		Yes	–	4,537	42	798
Total			**2,013**	**61,575**	**1,288**	**13,564**

Production

Production volumes grew 63% over the 2000 average to 13,564 boed/d. The majority of the increase occurred in early April following the acquisition of Ionic Energy when the daily average grew to 15,290 boe from 9,299 boe in the first quarter. Our 2001 average was comprised of 61.6 mmcf/d of natural gas, up 73% from the 2000 average; crude oil increased 44% to 2,013 bbl/d and NGL volumes were up 34% to 1,288 bbl/d. Natural gas accounted for 76% of average daily production in 2001.

Property Characteristics

LOCATION When acquiring assets, location is of prime importance. Shiningbank's properties are concentrated in west-central Alberta where there are excellent reserves, predictable production and a good infrastructure of pipelines and processing plants which contributes to the area's low cost structure. One producing property is located in British Columbia, which accounted for 5% of 2001 production, and two producing properties are in southern Ontario, one oil and one gas, accounting for 3.5% of 2001 production.

RESERVES Long-life reserves are a must when we acquire a property or a company. A long reserve life means production will continue for many years, providing stability to our asset base and longer-term value for our unitholders.

NATURAL GAS FOCUS Natural gas accounted for 76% of Shiningbank's production in 2001, the highest percentage in the sector. This gas focus has been fundamental to the Fund since its inception, and is based on our positive outlook for natural gas markets over the longer term.

The rest of our production is crude oil and NGL. All of our oil production is light gravity which receives higher prices, is always in demand by refiners and does not require advanced technology to produce. Shiningbank has no heavy or medium grade oil production, both of which receive lower prices and often require additional technology to produce.

MATURE VERSUS NEWER PROPERTIES Shiningbank acquires both relatively mature properties, along with newer properties where there are greater opportunities for development. Mature properties tend to provide predictability to the asset base as there is a long production history, which is a good indicator of future performance. Newer properties must also have good production characteristics, but they usually have fewer producing wells and therefore more opportunities for improving production or reservoir performance.

OPERATED PROPERTIES Shiningbank operated 65% of its production in 2001. Operatorship has a number of advantages: we are able to manage the production, reservoir performance and how a property is developed; plus we have direct control over costs, both operating and capital.

Acquisitions

Ionic Energy Inc.

A highlight of our year was the acquisition of Ionic Energy Inc., in early April. The friendly take-over was unanimously approved by the boards of directors of both companies.

When we reviewed acquisition targets early in the year, it was clear that Ionic was an exceptionally good fit with the Fund's existing asset base, and in meeting our acquisition criteria.

- We acquired high quality, long-life assets located in our main operating area in central Alberta.
- Production of 5,800 boe/d was 80% natural gas.
- Production increased immediately by 56% – 28 mmcf/d of natural gas, 1,200 bbl/d of crude oil and NGL.
- Added significant undeveloped lands and increased our inventory of development opportunities.
- The acquisition was immediately accretive to our investors as the production increase helped maintain distributions, just as gas prices began to decline.

The Whitecourt gas plant located northwest of Edmonton, Alberta is our largest operated gas plant.

Greencourt natural gas property

Our second acquisition highlight was the purchase of Greencourt, a natural gas asset located near our Whitecourt property in west-central Alberta. The deal closed in August and, as with the Ionic take-over, was motivated by the high quality natural gas reserves. Once again, the acquisition was immediately accretive to our investors.

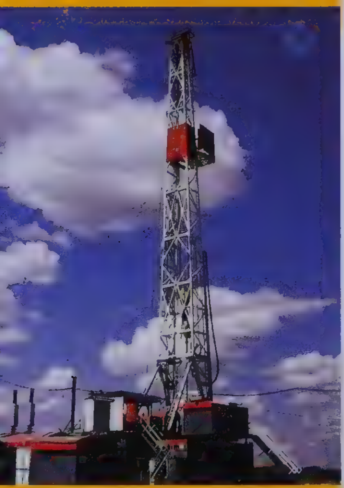
- We added 1,100 boe/d, of which 73% was natural gas.
- Following plant maintenance in August, production volumes increased by 4.8 mmcf/d, 160 bbl/d of NGL and 140 bbl/d of crude oil.

Added development opportunities

Both the Ionic and Greencourt acquisitions came with large tracts of undeveloped acreage, primarily in the west-central area of Alberta. Some of this acreage has excellent drilling prospects, but the risk is higher than we are willing to assume. Some of this land is being sold or swapped, and we are also pursuing "farmouts".

When we farmout to an exploration company, it pays the cost of drilling wells in return for earning an interest in the property. Shiningbank gives up some of its interest, but stands to gain production volumes and reserve additions at no risk or cost. These farmouts are expected to add value to our 2001 acquisitions, which is not recognized in our current reserve values.

Acquisition and development costs



Acquisition costs

Acquisition costs in 2001 were $13.21 per boe, up from $6.61 per boe in 2000. The increase was due to a significant rise in the price that the industry was paying for natural gas properties in 2001, and which we are still seeing in 2002. In Shiningbank's case, this involved the acquisition of Ionic Energy. The acquisition was completed after weighing a number of factors:

- Ionic's properties were high quality, primarily natural gas assets;
- Trust Units were used to pay for a portion of the deal, which reduced the overall cash cost;
- The cost of the acquisition was $192 million, including the non-cash value of the Trust Unit consideration, deal costs and assumed debt, but excluding future income taxes;
- The purchase price was evaluated using a Cdn$4.00 per mcf forecast for gas prices, which we believe will be the longer-term average.

The Ionic acquisition cost was $13.15 per boe of established reserves. While expensive, this is a reasonable price considering the healthy forecast for gas prices and the high quality of the assets. The deal was also attractive as the price assigned to the units was relatively high which, in the end, lowered the cash we had to pay.

Development costs

Total capital spent in 2001, excluding acquisitions, amounted to $12.6 million. A total of 38 gross (5.2 net) wells were drilled, completed and tied in at a cost of $5.0 million, with a success rate of 82% gross (58% net). These new wells added 703,000 boe of established reserves for a development cost of $7.16 per boe.

An additional $7.6 million was directed towards upgrading existing production and well facilities, accelerating production volumes and minor land purchases. These costs will contribute to lower operating expenses on the properties in the future.

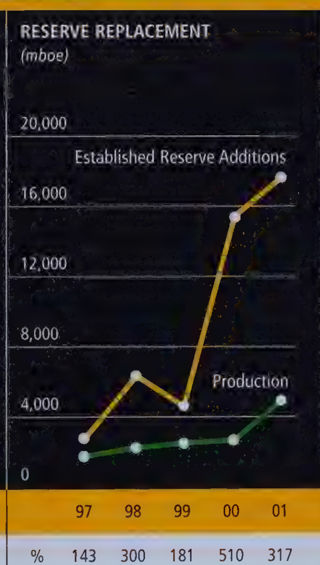
Recycle ratio

The total acquisition and development cost was $13.40 per established boe. With our 2001 operating netback at $20.92 per boe, the annual recycle ratio was 1.6 times. This was lower than normal due to the effect of lower oil prices in the year combined with higher acquisition prices on natural gas-weighted properties.

Reserves

Our year-end reserves were evaluated by independent engineers, Paddock, Lindstrom & Associates Ltd. Established reserves (proven plus 50% probable) grew 36% or 12.6 million boe after taking into account production of 5.0 million boe. Acquisitions, primarily the purchase of Ionic, made up 97% of the additions; development added 4% and revisions of prior estimates reduced reserves by 1%. At a discount factor of 12%, the net present value of our established reserves grew 15% to $397 million, despite reduced oil and gas price forecasts. Proved producing reserves make up 89% of the value of the proven reserves and 81% of the established reserves. The reserve life index for established reserves stood at 9.6 years at year-end 2001.

We have consistently added reserves that have replaced annual production by a wide margin.



COSTS PER BOE OF ESTABLISHED RESERVES

	1999	2000	**2001**	Cumulative from inception
Costs per boe of established reserves				
Acquisition costs	$ 5.19	$ 6.61	**$ 13.21**	$ 8.19
Development costs	$ 2.44	$ 6.62	**$ 17.94**	$ 8.73
Total acquisition and development	$ 4.95	$ 6.61	**$ 13.40**	$ 8.22
Field netback per boe	$ 10.33	$ 22.43	**$ 20.92**	
Recycle *(Netback ÷ acquisition and development costs)*	2.1	3.4	**1.6**	
Reserve replacement *(% of production)*	181%	510%	**354%**	317%

VALUE OF RESERVES USING ESCALATED PRICES

	Discount factor			
($000s)	0%	10%	12%	15%
Proved	$ 678,780	$ 387,798	$ 358,830	$ 323,297
Probable risked at 50%	116,172	43,074	37,814	31,765
Established	$ 794,952	$ 430,872	$ 396,644	$ 355,062

RESERVES RECONCILIATION

	Oil and NGL *(mbbl)*			Natural Gas *(bcf)*			Barrels of Oil Equivalent 6:1 *(mboe)*		
	Proved	Risked Probable	Established	Proved	Risked Probable	Established	Proved	Risked Probable	Established
December 31, 2000	7,791	1,570	9,361	132.1	19.2	151.3	29,812	4,771	34,583
Acquisitions, divestitures	3,284	611	3,895	68.0	11.1	79.1	14,599	2,455	17,054
Development	70	14	84	3.2	0.5	3.7	603	100	703
Revisions	130	(221)	(91)	0.9	(1.7)	(0.8)	288	(506)	(218)
Production	(1,205)	–	(1,205)	(22.5)	–	(22.5)	(4,951)	–	(4,951)
December 31, 2001	**10,070**	**1,974**	**12,044**	**181.7**	**29.1**	**210.8**	**40,351**	**6,820**	**47,171**

ESCALATING PRICE ASSUMPTIONS

	Crude Oil		Natural Gas	Exchange Rate
	West Texas Intermediate *(US$/bbl)*	Edmonton Light Crude *(Cdn$/bbl)*	Alberta Reference Price *(Cdn$/mmbtu)*	Foreign Exchange *($US/$Cdn)*
2002	21.00	32.31	3.40	0.63
2003	21.50	32.55	3.96	0.64
2004	21.93	32.68	4.16	0.65
2005	22.37	33.33	4.27	0.65
2006	22.82	34.00	4.39	0.65

Marketing

An active gas marketing program is an important part of capturing pricing highs – and bridging the lows of commodity price cycles. We continually monitor futures markets, pricing trends and major volume contracts both in Alberta and in North America's major markets.

About 75% of our gas volumes were marketed directly in daily or monthly spot markets in 2001. Selling into these markets gives us the ability to react quickly to price changes in gas markets.

The remaining gas was sold to aggregators, companies that buy gas from many producers in order to meet large volume contracts. Aggregators usually buy gas at prices near the monthly spot market indices.

Hedging

Hedging of production volumes allows the Fund to limit investors' exposure to declines in commodity prices. We continually review futures markets and are prepared to lock-in volumes at favourable prices when there appears to be a softening in prices or changes in market conditions. In essence, we can guarantee a level of cash flow from specific volumes which, in turn, helps stabilize distributions.

All hedging activities are governed by guidelines that limit hedging to 50% of production of any one commodity. We use hedging as a risk management tool, not to speculate on commodity prices.

HEDGING SUMMARY

Commodity	Volume	Floor *($/mcf)*	Ceiling *($/mcf)*	Fixed price
Natural gas				
To March 2002	10 mmcf/d	$ 3.16	$ 4.80	
To March 2002	5 mmcf/d			$ 3.81
To October 2002	3 mmcf/d			$ 6.68
To October 2002	3 mmcf/d	$ 5.27	$ 9.11	
April 2002 to October 2002	10 mmcf/d	$ 3.16	$ 3.87	
Oil				
To June 2002	500 bbl/d	US$20.00	US$26.50	

Results of Operations

Boe volumes are reported at 6:1 with 6 mcf = 1 bbl

Production Volumes

Average daily production volumes grew 63% during 2001, mainly as a result of production added through the acquisitions of Ionic Energy Inc. (Ionic) in April 2001 and Raider Resources Ltd. (Raider) in June 2000. Other significant acquisitions that contributed to increased production in 2001 were the acquisition of a package of producing properties in west-central Alberta for $47.7 million in October 2000, and the acquisition of properties at Greencourt, Alberta in August 2001. These increases were partly offset by natural declines of producing properties, which are estimated to average 12% per year.

DAILY PRODUCTION VOLUMES

	2001	2000	% change
Oil *(bbl/d)*	**2,013**	1,402	44%
Natural gas *(mmcf/d)*	**61.6**	35.7	73%
NGL *(bbl/d)*	**1,288**	962	34%
Oil equivalent *(boe/d)*	**13,564**	8,312	63%

Pricing – After Hedging

Natural gas prices averaged $5.80 per mcf, 6% higher than last year. Natural gas prices declined steadily from extremely high levels early in 2001 to reach a low for the year in September. Gas prices then recovered slightly and remained fairly level for the last three months of the year.

Oil prices began a year-long decline early in 2001 resulting in the average price being 15% lower than in 2000. Benchmark West Texas Intermediate oil averaged US$25.94 per bbl for 2001, 14% lower than 2000's average of US$30.26 per bbl.

AVERAGE PRICES – AFTER HEDGING

	2001	2000	% change
Oil *(Cdn$/bbl)*	**35.67**	41.95	(15)%
Natural gas *(Cdn$/mcf)*	**5.80**	5.45	6 %
NGL *(Cdn$/bbl)*	**29.59**	34.52	(14)%
Oil equivalent *(Cdn$/boe)*	**34.48**	34.44	0 %

Hedging Policy and Results

Shiningbank maintains an active hedging program for both oil and gas production. During 2001, the Fund hedged an average of 8.3 mmcf/d of natural gas (14% of total gas production), and 500 bbl/d of oil production (25% of total oil production). Under the Fund's hedging policy, not more than one-half of production volumes can be hedged at any one time. Hedging is intended to stabilize acceptable distribution levels by fixing the price on a portion of the production portfolio. Hedging activity in 2001 added $2.5 million to revenues, increasing the realized natural gas price by $0.09 per mcf and the oil price by $0.56 per bbl.

CURRENT HEDGING ACTIVITY

Period	Commodity	Volume	Price
November 1, 2001 – October 31, 2002	Gas	3 mmcf/d	$5.27/mcf floor $9.11/mcf ceiling
November 1, 2001 – October 31, 2002	Gas	3 mmcf/d	$6.68/mcf
November 1, 2001 – March 31, 2002	Gas	10 mmcf/d	$3.16/mcf floor $4.80/mcf ceiling
January 1, 2002 – March 31, 2002	Gas	5 mmcf/d	$3.81/mcf
April 1, 2002 – October 31, 2002	Gas	10 mmcf/d	$3.16/mcf floor $3.87/mcf ceiling
January 1, 2002 – June 30, 2002	Oil	500 bbl/d	US$ 20.00/bbl floor US$ 26.50/bbl ceiling

Revenues

Higher revenues in 2001 resulted from increases in both volumes and average natural gas prices offset, in part, by lower crude oil and NGL prices. The factors that contributed to higher revenues are shown in the following table:

SALES VARIANCE ANALYSIS – BEFORE HEDGING

	Crude oil and NGL		Natural gas	
(000s)	**2001/2000**	2000/1999	**2001/2000**	2000/1999
Volume increase	**$ 13,437**	$ 3,376	**$ 52,907**	$ 8,335
Price increase (decrease)	**$ (7,921)**	$ 12,896	**$ 2,040**	$ 37,610
Net increase	**$ 5,516**	$ 16,272	**$ 54,947**	$ 45,945

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The royalty rate was higher in 2001 mainly due to two factors: the Ionic acquisition, which gave Shiningbank properties with a slightly higher average royalty rate; and the price-sensitive rate structure for Alberta Crown natural gas royalties. The Alberta government provides a credit under the Alberta Royalty Credit program, which the Fund is eligible to access on a small portion of its properties. The Fund recorded $500,000 in Alberta Royalty Credit for 2001 and $477,000 in 2000.

	2001	2000
Total royalties, net *(000s)*	**$ 38,857**	$ 21,565
As % of revenues	**22.8%**	20.6%
Per boe	**$ 7.85**	$ 7.09

Operating Costs

Operating costs increased by 16% on a boe basis for 2001. Higher costs resulted mainly from repair and maintenance work, including several one-time costs on properties acquired during the year. Higher electrical costs and property taxes were also significant contributors to the increase. Electrical costs rose early in 2001 due to high natural gas prices and local deregulation, but are expected to be substantially lower in 2002.

	2001	2000
Operating costs *(000s)*	**$ 28,257**	$ 14,959
As % of revenues	**16.6%**	14.3%
Per boe	**$ 5.71**	$ 4.92

General and Administrative Costs

General and administrative costs increased 47% over 2000 due to the growth in the asset base from the acquisitions of Ionic and Raider. However, these costs declined both as a percentage of revenue and on a boe basis due to efficiencies resulting from improved economies of scale. At year end, Shiningbank had 28 full-time employees and 16 full- and part-time consultants at its head office. Field and production staff consisted of one production superintendent, 21 full-time employees and 35 contract operators. Costs of field and production staff are included in operating expenses. No general and administrative costs were capitalized.

	2001	2000
General and administrative costs *(000s)*	**$ 3,788**	$ 2,577
As % of revenues	**2.2%**	2.5%
Per boe	**$ 0.77**	$ 0.85
Per Trust Unit	**$ 0.16**	$ 0.18

Management Fees

Management fees rose in 2001 due to higher operating income, but were approximately the same percentage of revenues. The management fee was virtually the same as in 2000 on both a boe and Trust Unit basis.

	2001	2000
Management fees *(000s)*	**$ 3,500**	$ 2,134
As % of revenues	**2.1%**	2.0%
As % of distributable income	**4.3%**	5.0%
Per boe	**$ 0.71**	$ 0.70
Per Trust Unit	**$ 0.15**	$ 0.15

Interest

Interest expense increased 88% during 2001 due to a higher average debt level resulting from acquisitions, especially the Ionic acquisition. Lower interest rates partially offset the increase.

	2001	2000
Interest *(000s)*	**$ 5,675**	$ 3,020
As % of revenues	**3.3%**	2.9%
Per boe	**$ 1.15**	$ 0.99
Per Trust Unit	**$ 0.24**	$ 0.21

Depreciation and Depletion

Depreciation and depletion rose 137% from 2000 as a result of higher production volumes and a higher rate per boe. Per boe costs were up due to higher-priced acquisitions over the last two years.

	2001	2000
Depreciation and depletion *(000s)*	**$ 47,032**	$ 19,825
As % of revenues	**27.5%**	18.9%
Per boe	**$ 9.50**	$ 6.52

Future Income Taxes

The Fund recorded a recovery of future income taxes in 2001 resulting from changes in temporary differences and a reduction in the Alberta corporate income tax rate.

	2001	2000
Future income taxes (recovery) *(000s)*	**$ (9,900)**	$ 1,100
As % of revenues	**(5.8)%**	1.0%
Per boe	**$ (2.00)**	$ 0.36

Net Earnings

Shiningbank's net earnings were $50.7 million ($2.08 per Trust Unit) in 2001 compared with $37.8 million ($2.64 per Trust Unit) in 2000. Higher production levels were partially offset by lower crude oil prices and higher costs.

Distributable Income

Distributable income for 2001 increased to $82.0 million from $42.4 million in 2000. On a Trust Unit basis, distributions increased 23% to $3.40 from $2.76 in 2000. In 2002, commodity prices are forecast to be lower than in 2001 and, as a result, distributions are expected to be more in line with the level paid in late 1999.

QUARTERLY FINANCIAL INFORMATION

($000s, except per Trust Unit amounts)	March 31	June 30	September 30	December 31
2001				
Oil and natural gas sales	**$ 45,070**	**$ 53,472**	**$ 40,377**	**$ 31,795**
Net earnings	**20,060**	**20,431**	**8,519**	**1,641**
Per Trust Unit – basic	**1.07**	**0.83**	**0.33**	**0.05**
Per Trust Unit – diluted	**1.06**	**0.83**	**0.33**	**0.05**
Distributable income	**21,728**	**27,410**	**18,282**	**14,559**
Per Trust Unit	**1.10**	**1.10**	**0.70**	**0.50**
2000				
Oil and natural gas sales	$ 14,734	$ 18,962	$ 25,805	$ 45,271
Net earnings	3,508	5,215	8,478	20,563
Per Trust Unit – basic	0.29	0.41	0.53	1.21
Per Trust Unit – diluted	0.29	0.41	0.52	1.20
Distributable income	5,898	8,274	11,410	16,828
Per Trust Unit	0.50	0.58	0.68	1.00

Income Tax Information

In 2001, 74.78% of distributions payable by the Fund were required to be included in the income of unitholders. The balance of the distributions reduced each unitholder's adjusted cost base in their Trust Units for income tax purposes.

SUMMARY OF DISTRIBUTIONS AND TAXABILITY

	Record date	Payment date	Distribution *($ per unit)*	Taxable portion *($ per unit)*	ACB reduction *($ per unit)*
1996	September 30	October 15	$ 0.4070	$ –	$ 0.4070
	December 31	January 15	$ 0.4200	$ –	$ 0.4200
1997	March 31	April 15	$ 0.4000	$ –	$ 0.4000
	June 30	July 15	$ 0.4000	$ –	$ 0.4000
	September 30	October 15	$ 0.4000	$ –	$ 0.4000
	December 31	January 15, 1998	$ 0.4000	$ 0.0575	$ 0.3425
1998	March 31	April 15	$ 0.3700	$ 0.0532	$ 0.3168
	June 30	July 15	$ 0.3500	$ 0.0503	$ 0.2997
	September 30	October 15	$ 0.3500	$ 0.0503	$ 0.2997
	December 31	January 15, 1999	$ 0.3600	$ 0.1050	$ 0.2550
1999	March 31	April 15	$ 0.3500	$ 0.1021	$ 0.2479
	June 30	July 15	$ 0.3800	$ 0.1109	$ 0.2691
	September 30	October 15	$ 0.4200	$ 0.1226	$ 0.2974
	December 31	January 15, 2000	$ 0.4500	$ 0.2270	$ 0.2230
2000	March 31	April 15	$ 0.5000	$ 0.2522	$ 0.2478
	June 30	July 15	$ 0.5800	$ 0.2926	$ 0.2874
	September 30	October 15	$ 0.6800	$ 0.3430	$ 0.3370
	December 31	January 15, 2001	$ 1.0000	$ 0.7478	$ 0.2522
2001	March 31	April 15	**$ 1.1000**	**$ 0.8226**	**$ 0.2774**
	June 30	July 15	**$ 1.1000**	**$ 0.8226**	**$ 0.2774**
	September 30	October 15	**$ 0.7000**	**$ 0.5235**	**$ 0.1765**
	December 31	January 15, 2002	**$ 0.5000**	**not available**	

PER UNIT REVENUE AND EXPENSE ANALYSIS

	2001	2000
Daily production *(boe/d)*	**13,564**	8,312
Gross revenues	**$ 34.48**	$ 34.44
Royalties	**(7.85)**	(7.09)
Operating costs	**(5.71)**	(4.92)
Gross margin	**20.92**	22.43
General and administrative	**(0.77)**	(0.85)
Management fees	**(0.71)**	(0.70)
Interest on long term debt	**(1.15)**	(0.99)
Capital expenditures and site restoration	**(0.97)**	(1.92)
Dividend	**(0.17)**	(0.14)
Working capital adjustments and other	**(0.59)**	(3.89)
Distributable income per boe	**$ 16.56**	$ 13.94

2002 DISTRIBUTABLE INCOME SENSITIVITIES

	($000s)	Per Trust Unit
US $1 per bbl	1,350	$ 0.05
Cdn $0.25/mcf	3,960	$ 0.14
US $0.01 exchange	1,500	$ 0.05
100 bbl/d	1,050	$ 0.04
1 mmcf/d	1,700	$ 0.06
1% prime rate	1,200	$ 0.04

Costs of Acquisitions and Development

In 2001, Shiningbank acquired a total of $44.9 million in new properties in 10 separate asset purchases. In addition, the Fund completed the corporate acquisition of Ionic, which was paid for with a combination of cash and newly issued Trust Units. The most significant non-corporate acquisition was the purchase of assets at Greencourt, Alberta. The Fund disposed of non-core properties in 10 transactions for total proceeds of $8.3 million. Costs of drilling and new facilities totaled $12.6 million. Shiningbank's combined acquisition and development costs were $13.40 per boe, excluding acquisition fees of $0.21 per boe and future income taxes recorded on the Ionic transaction.

NET ASSET VALUE

	Discount factor		
(000s)	10%	12%	15%
Present value of reserves			
Proved	$ 387,798	$ 358,830	$ 323,297
Risked probable	43,075	37,814	31,765
Undeveloped lands	12,800	12,800	12,800
Working capital (deficit)	(7,339)	(7,339)	(7,339)
Total assets	436,334	402,105	360,523
Long term debt	(122,459)	(122,459)	(122,459)
Net asset value	$ 313,875	$ 279,646	$ 238,064
Trust Units outstanding *(000s)*	29,118	29,118	29,118
Net asset value per Trust Unit			
At December 31, 2001	$ 10.78	$ 9.60	$ 8.18
At December 31, 2000*	$ 18.50	$ 16.96	$ 15.10

* *The present value of reserves is calculated based on price forecasts prepared by Paddock Lindstrom & Associates Ltd. in its December 31, 2001 evaluation. The Net Asset Value per Trust Unit at December 31, 2000 used significantly higher oil and natural gas prices.*

Long Term Debt

Shiningbank maintains a line of credit with a syndicate of four Canadian chartered banks in the amount of $180 million, of which $122.5 million was drawn at December 31, 2001. During 2001, the Fund increased the total amount drawn on its credit lines by $65.1 million and increased total lines of credit by $90 million. As a result of the increase in available credit, at year-end 2001 the amount undrawn was $24.9 million more than in 2000.

In accordance with the original terms of the credit facility, on February 28, 2002, the Fund's credit was reduced to $170 million and is subject to review in April 2002. The Fund's governing documents restrict debt levels to 40% of the value of its properties, and debt service costs are not to exceed 30% of the projected annual cash flow. Neither of these limits was being approached at December 31, 2001.

Future Income Taxes

During 2001, $73.5 million in future income taxes was recorded as part of the cost of the acquisition of Ionic, representing the tax effect on the difference between the acquisition price of Ionic and its tax pools. Over the course of the year, the Fund recovered $9.9 million of this liability. As a result, future income taxes stood at $77.5 million at December 31, 2001.

Liquidity and Capital Resources

Unitholders' Equity

In February 2001, the Fund issued 2,875,000 new Trust Units at $16.20 each for gross proceeds of $46.6 million. These funds were used initially to reduce bank debt, but were subsequently redeployed as part of the Ionic transaction. In September 2001, the Fund issued 1,200,000 new Trust Units by private placement at $12.67 each for gross proceeds of $15.2 million. The Fund issued a further 3,000,000 Trust Units in November 2001 at a price of $13.40 each for gross proceeds of $40.2 million. These funds reduced debt resulting from previous acquisitions.

Operating Risks and Uncertainties

The oil and gas industry carries a number of inherent risks. The Fund is faced with risks that include: prices being subject to a complex set of local, national and international trading parameters; production risks relating to the ability to produce and process crude oil and natural gas from existing wells; the ability to develop or acquire sufficient quantities of crude oil and natural gas to replace production and maintain reserves; risks of government intervention and regulations; risks of environmental damage; and risks to the safety of its employees, contractors and the public.

To mitigate these risks, the Fund maintains financial flexibility, employs skilled personnel, both in the field and in its head office, and ensures that they are equipped with efficient and effective tools and training. Shiningbank also maintains insurance coverage in order to minimize the impact of events that might cause substantial financial damage.

To further reduce risk, the Fund employs operating practices including marketing and financial strategies, and uses hedging instruments when appropriate. Shiningbank's strategy of operating a significant portion of its production provides greater control over operational factors, including ensuring properties are operated in accordance with its policy to minimize impacts on the environment.

Maintaining an appropriate mix of sales contracts over varying lengths of time reduces exposure to short term price fluctuations, while allowing Shiningbank to take advantage of periods of price strength. Hedging product prices reduces price uncertainty, but hedges are not used as speculative vehicles.

Impact of Recently Issued Accounting Standards

In December 2001, the CICA established new standards for the recognition, measurement and disclosure of stock-based compensation. This applies to transactions in which shares of common stock, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

This new standard sets out a fair value method of accounting that is required for certain, but not all, stock-based transactions. It must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, or that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Fund to continue its existing policy that no compensation cost is recorded on the grant of Trust Unit Rights to employees. Consideration paid by employees on the exercise of Trust Unit Rights is recorded in Trust Units upon receipt.

The new standard requires additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options. The Fund will adopt the standard for its fiscal year beginning January 1, 2002. Shiningbank does not believe that the adoption of this standard will have a material impact on its financial condition or results of operations.

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Fund's financial position, results of operations and cash flow, within reasonable limits of materiality and within the framework of the accounting policies as outlined in the notes to the financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Fund.

The Audit Committee of the Board of Directors has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

David M. Fitzpatrick
President &
Chief Executive Officer

Bruce K. Gibson
Vice President,
Finance & Chief Financial Officer

To the Unitholders of Shiningbank Energy Income Fund

We have audited the consolidated balance sheets of Shiningbank Energy Income Fund as at December 31, 2001 and 2000 and the consolidated statements of earnings and unitholders' equity and cash flow for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and 2000 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 11, 2002

December 31 ($ thousands)	**2001**	2000
ASSETS		
Current assets		
Accounts receivable	**$ 24,142**	$ 25,239
Prepaid expenses	**3,430**	1,924
	27,572	27,163
Fixed assets *(note 4)*		
Petroleum and natural gas properties and equipment	**579,530**	264,567
Accumulated depletion and depreciation	**(105,867)**	(58,957)
	473,663	205,610
Other assets	**1,830**	–
	$ 503,065	$ 232,773
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 20,352**	$ 22,541
Trust Unit distribution payable	**14,559**	16,829
	34,911	39,370
Long term debt *(note 5)*	**122,459**	57,381
Future income taxes *(note 7)*	**77,500**	13,900
Provision for future site restoration	**5,870**	3,891
Unitholders' equity		
Trust Units *(note 6)*	**337,246**	161,005
Accumulated income	**94,787**	44,955
Accumulated royalty distributions	**(169,708)**	(87,729)
	262,325	118,231
	$ 503,065	$ 232,773

See accompanying notes to consolidated financial statements

Approved on behalf of Shiningbank Energy Income Fund by Shiningbank Energy Ltd.

a R Nielsen

Director

Director

For the years ended December 31 ($ thousands, except per Trust Unit amounts)	**2001**	2000
Revenues		
Oil and natural gas sales	**$ 170,714**	$ 104,772
Royalties	**(38,857)**	(21,565)
	131,857	83,207
Expenses		
Operating	**28,257**	14,959
General and administrative	**3,788**	2,577
Management fees	**3,500**	2,134
Interest on long term debt	**5,675**	3,020
Depreciation and depletion	**47,032**	19,825
Provision for future site restoration	**2,470**	1,351
Capital and large corporation taxes *(note 7)*	**384**	477
	91,106	44,343
Earnings before income taxes	**40,751**	38,864
Future income taxes (recovery) *(note 7)*	**(9,900)**	1,100
Net earnings	**50,651**	37,764
Unitholders' equity, beginning of year	**118,231**	68,935
Proceeds on issue of Trust Units	**176,241**	54,370
Royalty distributions	**(81,979)**	(42,410)
Dividends to Manager	**(819)**	(428)
Unitholders' equity, end of year	**$ 262,325**	$ 118,231
Net earnings per Trust Unit		
Basic	**$ 2.08**	$ 2.64
Diluted	**$ 2.08**	$ 2.63

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 ($ thousands)	**2001**	2000
Operating activities		
Net earnings	**$ 50,651**	$ 37,764
Items not requiring cash		
Depreciation and depletion	**47,032**	19,825
Provision for future site restoration	**2,470**	1,351
Future income taxes (recovery)	**(9,900)**	1,100
Cash flow from operating activities	**90,253**	60,040
Changes in non-cash working capital	**(20,897)**	(7,870)
	69,356	52,170
Financing activities		
Increase in long term debt	**18,078**	11,650
Financing costs	**(852)**	–
Distributions to unitholders	**(81,979)**	(42,410)
Issue of Trust Units	**98,607**	29,523
Dividends paid	**(819)**	(428)
	33,035	(1,665)
Changes in non-cash working capital	**(2,270)**	11,522
	30,765	9,857
Total cash provided	**$ 100,121**	$ 62,027
Investing activities		
Property acquisitions	**$ (44,902)**	$ (55,769)
Capital expenditures	**(12,608)**	(7,185)
Acquisition of business *(note 4)*	**(49,300)**	(420)
Long term investments	**(1,100)**	–
Proceeds on sale of fixed assets	**8,280**	1,522
Site restoration costs	**(491)**	(175)
Total cash used	**$ (100,121)**	$ (62,027)
Cash taxes paid	**$ 820**	$ 75
Cash interest paid	**$ 5,832**	$ 2,845

See accompanying notes to consolidated financial statements

1. SCHEDULE OF NET PRODUCTION REVENUE AND DISTRIBUTABLE INCOME

	2001	2000
Revenues		
Oil and natural gas sales	**$ 170,714**	$ 104,772
Non-Crown royalties	**(6,372)**	(2,510)
	164,342	102,262
Expenditures		
Operating	**28,257**	14,959
Capital expenditures, net	**4,328**	5,663
Site restoration costs	**491**	175
	33,076	20,797
Net production revenue	**131,266**	81,465
Deductions		
Administration	**3,788**	2,577
Management fees	**3,500**	2,134
Interest on long term debt	**5,675**	3,020
Capital and large corporation taxes	**384**	477
Amounts not attributable to the royalty	**10,919**	2,326
Working capital adjustments	**2,737**	11,387
	27,003	21,921
Net production revenue in excess of deductions	**$ 104,263**	$ 59,544
Royalty income to the Fund – 99%	**$ 103,219**	$ 58,949
Crown charges net of Alberta Royalty Credit – 99%	**(32,159)**	(18,865)
Principal repayment and interest income to the Fund	**10,919**	2,326
Distributable income	**$ 81,979**	$ 42,410
Distributable income per Trust Unit	**$ 3.40**	$ 2.76
Trust Units outstanding	**29,117,937**	16,828,712

2. ORGANIZATION

Shiningbank Energy Income Fund (the "Fund") is an unincorporated open-end investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture dated May 16, 1996 and subsequently amended. Operations commenced on July 1, 1996. The beneficiaries of the Fund are the holders (the "Unitholders") of trust units (the "Trust Units").

The Fund is managed, pursuant to the terms of a management agreement, by Shiningbank Energy Management Inc. (the "Manager"), which also owns all of the outstanding shares of Shiningbank Energy Ltd. (the "Corporation"). As a result of the terms of a unanimous shareholder agreement between the Fund, the Corporation and the Manager, however, the Fund controls the Corporation.

On June 2, 2000, the Corporation acquired approximately 94% of the outstanding common shares of Raider Resources Ltd. ("Raider"). Effective July 1, 2000, the Corporation, Shiningbank Energy Acquisitions Ltd., Raider and Cambright Gas Corporation (a wholly-owned subsidiary of Raider) were amalgamated, continuing as Shiningbank Energy Ltd.

On April 6, 2001, the Fund and its wholly owned subsidiary 923720 Alberta Ltd. acquired approximately 95% of the outstanding common shares of Ionic Energy Inc. ("Ionic"). Effective May 4, 2001, the Corporation, 923720 Alberta Ltd. and Ionic were amalgamated, continuing as Shiningbank Energy Ltd.

The trust indenture provides that 300,000,000 Trust Units may be issued. Each Trust Unit represents an equal fractional beneficial interest in any distributions from the Fund and in the net assets of the Fund on termination or winding up of the Fund. All Trust Units rank among themselves equally and rateably without discrimination, preference or priority. The trust indenture provides that Trust Units are redeemable at any time on demand by the Unitholders at amounts as determined by a market price formula. The total amount payable by the Fund in respect of all Trust Units tendered for redemption, however, may not exceed $100,000 in any calendar month.

The Fund makes quarterly distributions to Unitholders of record as of the last day of each calendar quarter.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Fund and the Corporation.

(b) Fixed assets

The Fund follows the full cost method of accounting for petroleum and natural gas properties under which all acquisition and development costs are capitalized. Such costs include land acquisition, geological, geophysical and drilling costs for productive and non-productive wells and directly related overhead charges. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs. Gains or losses upon disposition of such properties are not recognized unless the disposition would alter the depletion and depreciation rate by 20% or more.

The costs of fixed assets, plus a provision for future development costs of proved undeveloped reserves, are depleted and depreciated using the unit-of-production method based on estimated total proved reserves volumes, before royalties, as determined by independent engineers. Proved reserves are converted to a common unit of measure on the basis of their approximate relative energy content. Other miscellaneous assets are depreciated on a declining balance basis at 20% per annum.

The ceiling test has been computed using prices and costs in effect at the end of each year.

(c) Future site restoration costs

Estimated future site restoration and abandonment costs are provided for using the unit-of-production method based on estimated total proved reserves volumes. Costs are estimated by the Fund based on current regulations, costs, technology and industry standards. Actual site restoration and abandonment costs are charged against the liability as incurred.

(d) Income taxes

The Fund is a taxable trust under the Income Tax Act (Canada). Any taxable income is allocated to the Unitholders and therefore no provision for income taxes relating to the Fund is included in these financial statements.

The Corporation follows the tax liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

The Corporation is a taxable Canadian corporation and is liable for tax on income that it retains. The Corporation is also subject to capital taxes in jurisdictions where such taxes apply and these taxes are deducted from distributions to Unitholders.

(e) Financial instruments

Financial instruments of the Corporation consist mainly of accounts receivable, accounts payable and long term debt. The Corporation also from time to time employs financial instruments to manage exposures related to interest rates, Canada/US exchange rates and commodity prices. These instruments are not used for speculative trading purposes.

(f) Stock based compensation plan

Consideration paid by employees and directors of the Manager and the Corporation on the exercise of Trust Unit options under the Fund's Trust Unit Option Plan and Trust Units Rights Incentive Plan is recorded in Trust Units upon receipt.

(g) Joint ventures

Substantially all of the Fund's petroleum and natural gas activities are conducted jointly with others and, accordingly, these financial statements reflect only the Fund's proportionate interest in such activities.

(h) Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for future site restoration costs are based on estimates of reserves and future costs. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future years on the financial statements could be significant.

(i) Per Trust Unit amounts

Basic earnings per Trust Unit is computed by dividing net earnings by the weighted average number of Trust Units outstanding for the year. Diluted net earnings per Trust Unit amounts reflect the potential dilution that could occur if securities or other contracts to issue Trust Units were exercised or converted to Trust Units.

Distributable income per Trust Unit is based on actual entitlements.

4. FIXED ASSETS

(a) Fixed asset additions

During 2001, the Fund acquired additional petroleum and natural gas properties in the amount of $44,902,000 (2000 – $55,769,000) which have been accounted for as purchases.

(b) Business acquisitions

Effective April 6, 2001, Shiningbank acquired the common shares of Ionic Energy Inc. ("Ionic"). The acquisition was accounted for by the purchase method and the results of operations of Ionic are included in the accounts from the effective date of acquisition.

Fair value of Shiningbank Trust Units issued	**$ 77,595**
Cash consideration	**45,000**
Related fees and expenses	**4,300**
Cost of acquisition	**$ 126,895**
Working capital deficiency	**$ (18,299)**
Long term debt	**(47,000)**
Future income taxes	**(73,500)**
Petroleum and natural gas properties and equipment	**265,694**
Total consideration	**$ 126,895**

Effective June 2, 2000, the Corporation acquired the outstanding common shares of Raider. The acquisition was accounted for by the purchase method and the results of operations of Raider are included in the accounts from the effective date of acquisition.

Fair value of Shiningbank Trust Units issued	$ 24,847
Cash consideration	420
Related fees and expenses	2,579
Cost of acquisition	$ 27,846
Working capital deficiency	$ (2,550)
Long term debt	(10,212)
Future income taxes	(12,800)
Petroleum and natural gas properties and equipment	53,408
Total consideration	$ 27,846

5. LONG TERM DEBT

The Corporation has a $180 million revolving credit facility with a syndicate of four Canadian chartered banks. The facility reduces to $170 million on February 28, 2002 and has a 364 day extendable revolving period and a three year term. As at December 31, 2001, $122.5 million was drawn against these facilities (December 31, 2000 – $57.4 million). Borrowings under the facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the Corporation's total debt to cash flow ratio, or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee. The average borrowing rate at December 31, 2001 was 3.30% (December 31, 2000 – 6.77%). The facility is secured by a $300 million floating charge debenture on all assets of the Corporation.

6. TRUST UNITS

(a) Authorized

300,000,000 Trust Units

(b) Issued

	2001		2000	
	Number	Amount	Number	Amount
Balance, beginning of year	**16,828,712**	**$ 161,005**	11,791,833	$ 106,635
Issued for cash	**7,250,000**	**103,726**	2,592,500	31,237
Issued upon business acquisition *(note 4)*	**5,039,225**	**77,634**	2,444,379	24,847
Commissions and issue costs	**–**	**(5,119)**	–	(1,714)
Balance, end of year	**29,117,937**	**$ 337,246**	16,828,712	$ 161,005

(c) Trust Unit Options

The Trust Unit Option Plan was terminated effective June 30, 2001 and replaced with a Trust Unit Rights Incentive Plan described below. All of the outstanding options under the terminated plan were exercised prior to the termination.

	2001		2000	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	**175,000**	**$ 9.98**	352,500	$ 9.99
Exercised	**(175,000)**	**9.98**	(177,500)	9.99
Balance, end of year	**–**	**$ –**	175,000	$ 9.98

(d) Trust Unit Rights Incentive Plan

Effective July 1, 2001, a Trust Units Rights Incentive Plan was established and approved by the unitholders of Shiningbank to replace the former plan. A total of 1,481,443 units have been reserved for issuance under the plan. The initial exercise price of rights granted under the plan may not be less than the current market price of the Trust Units as of the date of grant and the maximum term of each right is not to exceed 10 years. The exercise price of the rights is to be adjusted downwards from time to time by the amount, if any, that distributions to unitholders in any calendar quarter exceed a percentage of the Fund's consolidated net book value of fixed assets. At December 31, 2001, there were 625,000 rights outstanding, none of which were exercisable.

	December 31, 2001	
Rights	Number	Price
Granted during 2001	**625,000**	**$ 17.25**
Reduction of exercise price		**(0.33)**
Balance, end of period	**625,000**	**$ 16.92**

(e) Per Trust Unit amounts

Net earnings per Trust Unit have been calculated using the weighted average number of Trust Units outstanding during the year of 24,005,274 (2000 – 14,166,658).

7. INCOME TAXES

The provision for income taxes in the financial statements differs from the result that would have been obtained by applying the combined federal and provincial tax rate to the Corporation's earnings before income taxes. This difference results from the following items:

	2001	2000
Taxable earnings (loss) of the Corporation	**$ (15,100)**	$ 6,700
Combined federal and provincial tax rate	**42.6%**	44.6%
Computed income tax expense	**(6,400)**	3,000
Increase (decrease) in income taxes resulting from:		
Non-deductible Crown charges	**100**	200
Resource allowance	**(1,200)**	(2,100)
Change in tax rate	**(500)**	–
Other	**(1,900)**	–
Future income taxes (recovery)	**(9,900)**	1,100
Capital and large corporation taxes	**384**	477
Income and Capital taxes	**$ (9,516)**	$ 1,577

The components of the Corporation's future income tax liability at December 31, 2001 were as follows:

Future income taxes	
Oil and natural gas properties	**$ 82,500**
Provision for site restoration	**(1,900)**
Other	**(3,100)**
	$ 77,500

8. RELATED PARTY TRANSACTIONS

The Manager provides services to the Fund and the Corporation pursuant to a management agreement. The Fund, through the Corporation, paid the Manager $3,500,000 in 2001 (2000 – $2,134,000) for management fees, together with $3,788,000 (2000 – $2,577,000) for recovery of general and administrative and financing expenses. These amounts have been charged to earnings. A further fee of $3,503,000 (2000 – $1,478,000) was paid in respect of acquisition fees, which amounts have been capitalized. Current liabilities at December 31, 2001 include $1,807,000 (2000 – $1,578,000) payable to the Manager in respect of general and administrative expense recoveries and management fees.

9. FINANCIAL INSTRUMENTS

As at December 31, 2001, there are no significant differences between the carrying amounts and the fair value of accounts receivable, payable and long term debt. The Corporation is exposed to interest rate variance on the long term debt disclosed in the balance sheet. Gains and losses on exchange rate and commodity price hedges are included in revenues upon the sale of related production provided there is reasonable assurance that the hedge is and will continue to be effective.

At December 31, 2001, Shiningbank held certain oil and natural gas hedge contracts, the terms of which are listed in the following table. The estimated market value at December 31, 2001, had the contracts been settled at that time, would have been a gain of $6,085,000.

Period	Commodity	Volume	Price
November 1, 2001 – October 31, 2002	Gas	3 mmcf/d	$5.27/mcf floor $9.11/mcf ceiling
November 1, 2001 – October 31, 2002	Gas	3 mmcf/d	$6.68/mcf
November 1, 2001 – March 31, 2002	Gas	10 mmcf/d	$3.16/mcf floor $4.80/mcf ceiling
January 1, 2002 – March 31, 2002	Gas	5 mmcf/d	$3.81/mcf
January 1, 2002 – June 30, 2002	Oil	500 bbl/d	US$ 20.00/bbl floor US$ 26.50/bbl ceiling

Subsequent to December 31, 2001, the Corporation entered into a natural gas hedge contract for the period from April 1, 2002 to October 31, 2002 totaling 10 mmcf per day with a floor of $3.16 per mcf and a ceiling of $3.87 per mcf.

As at December 31, 2001, the Corporation held an interest rate swap for $10.0 million at an interest rate of 5.97%, expiring October 30, 2002. The estimated market value at December 31, 2001, had the contract been settled at that time, would have been a loss of $376,000.

FIVE-YEAR OPERATING AND FINANCIAL REVIEW

	2001	2000	1999	1998	1997
FINANCIAL *($000s, except Trust Unit amounts)*					
Gross revenues	**$ 170,714**	$ 104,772	$ 44,129	$ 30,163	$ 31,343
Royalties	**(38,857)**	(21,565)	(7,909)	(4,950)	(5,651)
Operating expenses	**(28,257)**	(14,959)	(11,446)	(9,756)	(8,634)
Operating netback	**103,600**	68,248	24,774	15,457	17,058
General and administrative	**3,788**	2,577	2,102	1,875	1,825
Management fees	**3,500**	2,134	849	638	664
Interest	**5,675**	3,020	2,175	1,797	782
Other	**384**	477	135	30	37
Cash flow	**$ 90,253**	$ 60,040	$ 19,513	$ 11,117	$ 13,750
Depreciation and depletion	**47,032**	19,825	13,781	11,342	9,771
Provision for site restoration	**2,470**	1,351	1,069	917	793
Future income taxes (recovery)	**(9,900)**	1,100	–	–	–
Net earnings	**$ 50,651**	$ 37,764	$ 4,663	$ (1,142)	$ 3,186
Cash flow	**$ 90,253**	$ 60,040	$ 19,513	$ 11,117	$ 13,750
Capital expenditures, net	**(4,819)**	(5,838)	(2,129)	(1,388)	(2,131)
Working capital adjustments	**(3,455)**	(11,792)	16	1,833	364
Distributable income	**$ 81,979**	$ 42,410	$ 17,400	$ 11,562	$ 11,983
Per unit	**$ 3.40**	$ 2.76	$ 1.60	$ 1.43	$ 1.60
Long term debt	**122,459**	57,381	35,519	39,602	18,095
Acquisition and development costs	**323,204**	116,362	28,283	30,578	19,453
Unitholders' equity	**262,325**	118,231	68,935	53,224	55,678
Total assets	**503,065**	232,773	118,242	103,068	81,674
Trust Units outstanding at year end	**29,117,937**	16,828,712	11,791,833	8,689,333	7,489,333
Trading History					
High	**$ 18.70**	$ 18.50	$ 11.40	$ 10.30	$ 11.50
Low	**$ 11.85**	$ 9.90	$ 9.45	$ 7.95	$ 8.35
Close	**$ 13.97**	$ 17.00	$ 10.65	$ 10.00	$ 9.10
Volume *(millions of units)*	**27.1**	9.0	5.1	5.0	5.5
OPERATING					
Production					
Oil *(bbl/d)*	**2,013**	1,402	1,298	1,208	1,215
Gas *(mmcf/d)*	**61.6**	35.7	27.5	24.7	20.8
NGL *(bbl/d)*	**1,288**	962	697	478	241
Boe *(bbl/d)*	**13,564**	8,312	6,572	5,796	4,915
Average sales price (after hedging)					
Oil *($/bbl)*	**$ 35.67**	$ 41.95	$ 25.85	$ 17.65	$ 26.11
Gas *($/mcf)*	**$ 5.80**	$ 5.45	$ 2.68	$ 2.23	$ 2.39
NGL *($/bbl)*	**$ 29.59**	$ 34.52	$ 19.54	$ 13.65	$ 19.18
Boe *($/boe)*	**$ 34.48**	$ 34.44	$ 18.40	$ 14.26	$ 17.47
Established reserves *(Proven plus 50% probable) (mboe)*	**47,171**	34,583	22,116	20,174	15,954

1997 trading statistics include $4.00 instalment payment. Barrels of oil equivalent are at 6 mcf = 1 boe.

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Paddock Lindstrom & Associates Ltd.
Calgary, Alberta

LEGAL COUNSEL

Gowling Lafleur Henderson LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: SHN.UN

NOTICE OF MEETING

The Special and Annual General Meeting of the unitholders of Shiningbank Energy Income Fund and the Annual General Meeting of Shiningbank Energy Ltd. will be held on Tuesday, May 7, 2002 at 3:00 p.m. (local time) in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W. Calgary, Alberta. Unitholders are encouraged to attend, and those unable to do so are asked to complete and return the Form of Proxy.

BOARD OF DIRECTORS

Arne R. Nielsen
Executive Chairman

David M. Fitzpatrick
President & Chief Executive Officer

D. Grant Gunderson
Director

Edward W. Best
Director

Warren D. Steckley
Director

OFFICERS

Arne R. Nielsen
Executive Chairman

David M. Fitzpatrick
President & Chief Executive Officer

Bruce K. Gibson
Vice President, Finance & Chief Financial Officer

Gregory D. Moore
Vice President, Operations

Terry P. Prokopy
Vice President, Land

Richard W. Clark
Corporate Secretary

ABBREVIATIONS

bbl	barrels of oil or natural gas liquids
bcf	billion cubic feet of natural gas
boe	barrels of oil equivalent (6,000 cubic feet of natural gas is equivalent to one barrel of oil)
/d	per day
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet of natural gas
mmcf	million cubic feet of natural gas
mmbtu	million British thermal units
NGL	natural gas liquids

OUR EMPLOYEES AND CONSULTANTS

Mark Adams
Pabla Andaur
Donna Arthur
Ray Bahr
Kristine Beard
Chad Beauliua
Susie Bergermann
Dennis Betts
Brenda Bodie
Jason Bosma
Irvin Bouck
Robert Bougie
Judy Britton
Irene Britton
Debbie Carver
S. Ken Chalmers
Paul Codd
Sandy Cunnigham
Bill Degroot
Darilyn Derwent
Richard Eric
Bill Fincaryk
Dave Fitzpatrick
Jim Frey
Trevor Fulton
Marilyn Gardner
Bruce Gawalko
Randy Gerber
Don Gerherman
Bruce Gibson
Ian Gillies
Alan Glessing
Brad Granley
Mark Gray
Indy Grewal
Trevor Hans
Brian Hauer
Dave Hendrickson
Kari Herman
Jeanette Hibbert
Paul House
Bill Hughs
Andrea Huitema
Paul Johnston
Harold Junck
Jerry Keeler
Sonia Kelly
Joanne Kennedy
Doug Kidd
Les Kingdon
Todd Klippenstein
Tom Kokotailo
Darcy Lamoureux
Pierre Marchand
Ian Martinot
Joe McAvoy
Debbie McBride
Kathy Matheson
James McBeth
Mike McBeth
Jim McIntosh
Harold McLean
Gordon McLean
Jana McLean
Rob Miller
Greg Moore
Ben Morris
Brenda Mychasiuk
Zoe Mykytiw
Arne Nielsen
Al Noren
Brian Ontko
Roger Palmer
Terry Prokopy
Bruce Richert
Terry Robichaud
Greg Ross
Glenda Ross
David Russell
Luc Sabourin
Patricia Sardinha
Lawrence Schaff
Brad Schuck
Irv Scott
Laura Silbernagel
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